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TAGS: [ENRG](#) [EPET](#) [EINV](#) [ECON](#) [IZ](#) [AU](#)

SUBJECT: OMV DEFENDS OIL CONTRACTS WITH THE KRG

REF: A) BAGHDAD 3893 B) VIENNA 701 C) 06 VIENNA 3486

Classified By: Acting Economic-Political Counselor Phillip R. Nelson
for reasons 1.4 (b) and (d).

Summary

¶1. (C) During a November 30 meeting with Emboffs, OMV's Vice President for Business Development, Peter Seitinger, defended OMV's recent signing of two production sharing agreements (PSAs) with the Kurdish Regional Government (KRG). Seitinger argued that the PSAs were entirely in line with the Iraqi constitution and draft Hydrocarbon Law. Seitinger lamented that the draft Hydrocarbon Law was languishing in Baghdad due to a power struggle between the Federal Oil Minister and the KRG Natural Resources Minister. Seitinger said that OMV was also interested in developing Iraq's underutilized natural gas sector, which could eventually provide 5-10 billion cubic meters for the Nabucco gas pipeline project by 2015. EconUnit Chief cautioned OMV that the USG could not support OMV's deals with the KRG, absent the passage of a national Hydrocarbon Law. End Summary.

OMV: Contracts Compatible with Iraqi Constitution

¶2. (C) Emboffs met on November 30 with Peter Seitinger, Vice President of Business Development for OMV Exploration and Production, to discuss OMV's recent contract with the Kurdish Regional Government (KRG) to acquire two oil exploration blocks in northern Iraq. Seitinger confirmed that OMV had signed two production sharing agreements (PSAs) with the KRG to develop the Mala Omar and Shorish blocks. The PSAs cover a three-year period, allowing for seismic operations and drilling. OMV has an option to convert the PSAs into production licenses.

¶3. (C) OMV, according to Seitinger, would receive 15% of production revenues, with "Iraqi authorities" receiving 85%. Seitinger said that it is his understanding that the KRG is willing to share revenues with the Iraqi central government on a 17%/83% basis, as Iraq's draft Revenue Sharing Law stipulates. Seitinger conceded that passage of the Revenue Sharing Law was intertwined with the stalled draft Hydrocarbon Law.

¶4. (C) Seitinger said he was aware of criticism from Baghdad that the KRG had negotiated away too many concessions to western oil companies. However, Seitinger defended OMV's decision to bypass the central government, maintaining that the PSAs were entirely in line with the Iraqi Constitution and the draft Hydrocarbon Law. The constitution, according to OMV legal opinion, grants regional governments the authority to award exploration licenses. In Seitinger's view, delay in passage of the Hydrocarbon Law was due solely to a personal power struggle between Federal Oil Minister

Shahristani and KRG Natural Resources Minister Ashti Hawrami.

¶ 15. (C) Seitinger maintained that OMV had kept the Federal Oil Ministry in the loop regarding its negotiations with the KRG. Seitinger characterized comments from Oil Minister Shahristani threatening to annul the KRG-OMV contracts as unhelpful. (Note: Seitinger made no reference to Shahristani's letter to OMV CEO Wolfgang Ruttenstorfer announcing the annulment of the OMV-KRG PSA (ref A). End Note).

¶ 16. (C) EconUnit Chief cautioned Seitinger that the USG could not condone OMV's deal with the KRG, absent a national Hydrocarbon Law. Revenues from Iraq's immense natural resources should be an important source of development for all Iraqis.

OMV Eyes Iraqi Gas For Nabucco

¶ 17. (C) According to Seitinger, OMV remains interested in gas exploration in northern Iraq (refs A and B). Seitinger opined that OMV could offer its expertise in the natural gas business to help Iraq develop its underutilized gas sector. Seitinger said that a large portion of any future gas production would undoubtedly go for the region's demand. However, Seitinger said that OMV hoped to be able to access between 5-10 billion cubic meters of Iraqi gas for the Nabucco gas pipeline project by 2015.

Kilner